**TESTIMONY OF THE**
**NATIONAL PEANUT GROWERS GROUP**

**Before the Subcommittee on Specialty Crops and**
**Foreign Agriculture Programs of the House Agriculture Committee**

**June 13, 2001**
**Washington, D.C.**

Thank you, Mr. Chairman, for this opportunity to discuss options for a new Farm Bill. Peanut producers want and need your support.

My name is Dykes Adkison, I am farmer from Elba, Alabama.

I am here today representing the National Peanut Growers Group and my purpose is to help sustain thousands of active farm families in peanut production. Our organization is the only national peanut producer organization and represents all of the nation's peanut producing families. We are governed by a farmer-selected steering committee made up of representatives from grower-elected association boards all across the peanut growing regions.

The NPGG is made up of the following organizations: Alabama Peanut Producers, Georgia Agriculture Commodity Commission For Peanuts, GFA Peanut Association, Georgia Peanut Producers Association, Texas Peanut Growers Association, Southwestern Peanut Growers Association, Oklahoma Peanut Growers Association, Virginia Peanut Growers Association, Inc., North Carolina Peanut Growers Association, Peanut Growers Cooperative Marketing Association, New Mexico Peanut Growers Association, South Carolina Peanut Board, and Florida Peanut Producers Association.

Mr. Chairman, the Peanut Program is absolutely necessary to peanut producers. U.S. producers are dependent on the Program and in turn, so are hundreds of rural communities that are supported by peanut growing families and support industries associated with peanut production and marketing. Additionally consumers and manufacturers are dependent upon a program that provides a safe and economical supply of peanuts.

The peanut farmer is a family producer and a solid citizen in his community. However, that small family producer must work an entire year to produce a crop that, because of its perishable nature, must be sold almost immediately at harvest. We are told that about 80% of U.S. peanuts are sold to only two processing companies. One of these companies is owned by the nation's largest agri-business processor. These shelling companies in turn sell to various product manufacturers. Again, this portion of the peanut industry is dominated by "very" big business. Six multinational billion dollar corporations purchase 75% to 80% of the domestically used peanuts.

What marketing ability does a small family farmer have in this situation? The clear answer is very little, without the Peanut Program. We are deeply dependent on, and appreciative to this Committee for the Peanut Program.

There are strong consumer benefits to the Peanut Program also. Consumers benefit greatly from the Peanut Program because, to receive program benefits, peanut producers must produce a consistent supply and comply with one of the strictest quality programs in agriculture. This steady supply has held prices in check and avoided the "boom and bust" that has plagued other commodities. The result has been that peanut butter is one of the least expensive protein sources in the U.S. diet and peanuts are the least expensive nut for a snack food.

Mr. Chairman, just as the recent trade agreements have not been kind to peanut producers, neither has the current farm program. As compared with the program before current law, peanut producers have lost 10% of the peanut support price, resulting in a loss in income of millions of dollars to peanut producers. Growers also lost the escalator provision in this current program, thus the peanut support price, and thus farm income from peanuts has been frozen since 1996.

And Mr. Chairman, there has been essentially no benefit to the housewife from these losses to producers. Consumer peanut and peanut prices have risen since 1996.

The current situation, Mr. Chairman, adds to the economic difficulty facing peanut farmers today. Every farm input has increased since 1996. I know you are fully aware of the dramatic increase in fuel costs that farmers faced last year and the outlook is only for more increases in fuel costs. This factor alone will force many producers off their farms this year.

Mr. Chairman, we have two recommendations for this Committee, short term and long term.

Short term, if a new farm policy cannot be developed quickly, then peanut producers must again receive market loss payments as has been made available the last two years. Again, Mr. Chairman, we are deeply appreciative to you and this Committee for helping make those payments available to peanut producers, and ask that consideration be given to doubling those payments this year. It is only in this manner that economic losses faced by peanut farmers from current policy can be offset.

In the long term, Mr. Chairman, despite the value of the Peanut Program, peanut producers realize the political realities in Washington involving budgets, trade agreements, and anti-program proponents. The National Peanut Growers Group has voted on various options for consideration as a new Farm Bill begins, and present to you today a description of the option we feel is best for the taxpayer, consumer, processor, manufacturer, and most importantly the farmer.

This is a serious matter for producers, Mr. Chairman. Today, we are facing oversupply stemming from record high peanut imports, and record high peanut butter imports. GATT and NAFTA were not kind to peanut producers as it is projected we will lose to imports more than 10% of our domestic market over the next several years. We make these recommendations with this increased competition in mind.

## **Marketing Competitiveness Option**

In reviewing the options to make producers competitive with imports and at the same time offering the consumer a product with no domestic price disadvantage, the Step-Two Concept/Market Competitiveness Option (similar to cotton) is viewed as the most viable option by the National Peanut Growers Group.

Under the Market Competitiveness/Step-Two Option, producers are offered a price support level that will allow them to keep up with the cost of production. Additionally, the processor will be afforded a peanut that is priced competitively to imports. This will also answer consumer advocacy groups that wrongly contend that U.S. peanuts artificially drive up retail prices, although we believe this is not the case. Finally, we believe the cost associated with this option will be below the current WTO support levels attributed to peanuts.

Since the world edible market is primarily in the U.S., it is important that we work to keep domestic peanuts into our home market as well as the world market. The Market Competitiveness/Step-Two Option was offered by the 21st Century Production Agriculture as an option, that while similar to the Cotton program, it would stimulate the purchase of U.S. peanut domestically at a competitive price. Under the current program, quota or domestic peanuts are generally priced at a level that is above the world price due to U.S. production costs, regulations and various other reasons. This option would allow the domestic poundages to be bought at a price competitive with other origins.

The quality of U.S. produced peanuts continues to be generally superior to imported peanuts. A domestic competitiveness option for peanuts would be helpful to processors and would ensure that U.S. consumers continue to have high quality peanuts available. The processor would be buying based upon quality and delivery.

The introduction of a domestic Market Competitiveness/Step-Two Option creates a viable domestic support rate, when adjusted for cost of production it also means a more viable producer. Secondly, the peanuts could then be bought by a processor at a determined competitive price rate. Differences between the support rate and adjusted price would be a program cost that is estimated to be lower that WTO attributed spending for peanuts. The price could be determined by using an average import price, North American Import price, and a converted Rotterdam market price. We realize that developing a world price mechanism is important, but is also difficult considering that there are limited price discovery markets for peanuts.

Under this concept the producer would not receive a direct government payment and thus would not be affected by payment limits or annual Appropriation battles. Marketing options for any production above domestic consumption levels then could be enhanced by an increased loan level for additional or export production.

One mechanism for delivery of the domestic support rate would be through established CCC draft mechanisms, utilizing the area marketing associations. The processor would then repay the CCC for delivered domestic peanuts at an established price level. This would eliminate any government dollars from moving into processor hands.

As was mentioned earlier, estimated Program cost should be less than the $347 million attributed to U.S. Peanut Program Support. If the cost adjusted domestic price support rate for the producer was $0.39 per pound or $780 per farmers stock ton and the determined world price was $.25 per pound or $500 per ton (average converted price including C.I.F.) the competitiveness costs would $.14 per pound or $280 per ton. Therefore, there would be a cost of $336 million ($280 per ton times 1.2 million tons of domestic consumption).

The competitivesness provision is also a cost containment provision. By limiting domestic support to domestic average consumption, the cost of this option is limited.

In addition to providing the producer a cost of production adjusted support rate, the processor is buying on quality and delivery. Therefore, there would be no price incentive to purchase foreign peanuts, and reduce the need for tariffs that are currently being reduced under trade agreements. At the same time this would not be considered trade distorting, because there is only leveling of the market and not undercutting the market.

Although the NPGG did not specifically address what are currently referred to as additional peanuts, there are ways to assist in marketing peanuts for the export market. Peanuts produced primarily for the export market could then be supported at a higher rate using an optional marketing loan concept. If an export loan level was in place, the producer could have the choice to produce for the world export or utilize the Association pools. The export market would be made more attractive by an improved loan rate, without relying solely on a purchaser contract. Costs are estimated to be minimal because the market would dictate production for the export market. Additionally, the support rate expense would be offset by returns from alternative oil and meal markets that is closely priced to the export support rate and export loan sales.

Other items that were deemed important for producer survival were cost management, and maintaining high product quality. We feel the best cost containment tool is the use of a supply management mechanism. This is not to control the amount of peanuts grown, but to control the amount eligible for domestic support. There would be no planting restrictions. However, only an amount equal to domestic consumption would be eligible for the domestic support rate with Competitive Option.

Furthermore, if buyers are going to make purchasing decisions based on quality, the NPGG feels they must maintain the current grading system. The Federal/Sate Inspection Service is a pivotal part of delivering quality peanuts to the processor.

As was mentioned earlier, peanut farmers have lost a great deal of income since 1995. In part due to the cuts in price in the budget driven 1996 Farm Bill, but also partly because of a frozen loan rate. Therefore, a price support adjustment is needed. The NPGG supports a farmer stock support rate of $0.39 per pound. Additionally , we support a cost of production adjustment provision that would be adjusted annually at a rate of not less than two percent using the Consumer Price Index.

It is also important there be an adequate supply of peanuts for the domestic market. Therefore, we recommend that peanuts grown for export would be allowed to move into the domestic market if a shortage occurred.

The Market Competitiveness/Step-Two option brings about a condition enabling the producer to stay viable and to keep up with cost of production. At the same time there is maintance of the base structure of the Peanut Program with more flexibility and competitevness. With no direct payment there is no payment limit problems or AMTA cost. The processor will be able to buy the domestic peanut at a level competitive with imports, thus eliminating the price incentive for foreign peanuts. This option also creates minimal government outlays with postive returns for the producer, processor, manufacturer, and consumer.

Mr. Chairman we developed these recommendations with cost considerations in mind while we support the elimination of the no-net-cost provision, we have taken a step towards being competitive, all this with the taxpayer, consumer, processor, manufacturer and farmer in mind.

Mr. Chairman, on behalf of the National Peanut Growers Group we thank you for this opportunity.